

AUDIT SUMMARY

This report includes both the audit of the Virginia Military Institute's financial statements for the year ended June 30, 1998 and a review of the Superintendent's discretionary account for the period January 1, 1997 through April 30, 1999.

We conducted the review of the Superintendent's discretionary account based on a request by Bruce C. Gottwald, President of the VMI Board of Visitors, to investigate possible improper expenses. On June 22, 1999, we began our review of disbursements from the Superintendent's discretionary account and enclose the report herein.

The report on the Superintendent's discretionary account recommends that the Board of Visitors review expenses totaling \$46,776 that we could not establish a clear benefit to the Institute nor could we determine that the Superintendent made these purchases intentionally for his personal use.

In addition to the review and potential repayment of the transactions discussed above, we recommend the following actions.

1. The Board of Visitors should adopt detailed guidelines for the use of this account and all other public funds under their control.
2. The Board of Visitors should set guidelines for Staff to report directly to a committee of the Board any action that does not comply with the guidelines above.
3. The Board of Visitors should determine if there are any funds outside the Institute's public funds available to the Superintendent for discretionary purchases and if it is appropriate for the Superintendent to have access to these funds.

Our audit of Virginia Military Institute for the year ended June 30, 1998, found:

- the financial statements are presented fairly, in all material respects;
- internal control matters that we consider to be reportable conditions; however, we do not consider any of these to be material weaknesses; and
- no instances of noncompliance required to be reported under Government Auditing Standards.

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SPECIAL REVIEW OF SUPERINTENDENT'S DISCRETIONARY ACCOUNT

Summary

On June 22, 1999, we began our review of the Superintendent's discretionary account. This section summarizes our findings and observations concerning the operations of this account and the main section of this report contains our detailed findings.

Background

The Superintendent's discretionary account has existed for sometime and the date of its original creation is unknown. During this Superintendent's tenure, there have been two increases in the level of funding, which is now \$118,200 annually. This funding comes from various unrestricted local revenue sources including donations from the VMI Foundation.

This account clearly falls within the definition of "public funds", however; the funding is not part of the appropriation process or the executive branch budget process. Therefore, we do not believe the money is subject to all the rules and regulations of central administrative agencies. As "public funds," the Code of Virginia and any limitations set by the Board of Visitors govern the use of the monies.

The Board of Visitors has not adopted any official guidelines for the use of these funds or limited the types of purchases. While certain administrative staff believe the account should comply with the Institute's internal policies, their actions do not support this belief.

Staff regularly received the invoices, reviewed credit card charges for this account, and manually prepared the checks for payment. However, we could find no evidence that the Staff questioned any purchases during this process. We also found several occasions where Staff acted to prevent the Superintendent from making purchases that would have resulted in a violation of State purchasing guidelines.

Criteria Used in Our Review

In the absence of guidelines from the Board of Visitors, we reviewed the purchases from this account against the following criteria.

1. Did the purchase violate the Code of Virginia or State Purchasing guidelines?
2. Did the purchase have a clear benefit to the mission of the Institute? If not, did it appear that the Superintendent intentionally benefited from the purchase?
3. Did the Superintendent's actions create either a conflict of interest or the appearance of a conflict of interest?

Summary of Findings

We found numerous purchases totaling \$46,776 that we could not establish a clear benefit to the Institute nor could we determine that the Superintendent made these purchases intentionally for his personal use. We recommend that the Board of Visitors review these purchases with the Superintendent and determine if he should reimburse the Institute for these purchases.

We also found two purchases totaling \$101.00, which we believe, are personal items, goods, or services. The Superintendent should immediately reimburse the account for this entire amount.

Finally, we found purchases for 101 books written by the Superintendent for use as gifts. These book purchases amounted to \$2,520. Based on information provided by the Superintendent, he received a flat advance for the initial printing that would amount to \$2.83 per volume. Based on the 101 volumes purchased, the potential value to the Superintendent is \$285. In our opinion, this transaction represents the appearance of a conflict of interest. The Board of Visitors should consider issuing a policy concerning the purchase of such items and the disposition of such earnings.

Recommendations for Action by the Board of Visitors

In addition to the review and potential repayment of the transactions discussed above, we recommend the following actions.

1. The Board of Visitors should adopt detailed guidelines for the use of this account and all other public funds under their control.
2. The Board of Visitors should set guidelines for Staff to report directly to a committee of the Board any action that does not comply with the guidelines above.
3. The Board of Visitors should determine if there are any funds outside the Institute's public funds available to the Superintendent for discretionary purchases and if it is appropriate for the Superintendent to have access to these funds.

Our report also contains other control matters that Institute management will need to address. Most of these matters deal with the use and control of the small purchase credit card and the review process for preparing payments.

Main Report

We began our review based on a request by Bruce C. Gottwald, President of the VMI Board of Visitors, to investigate possible improper expenses from the Superintendent's discretionary account. On June 22, 1999, we began our review of disbursements from the Superintendent's discretionary account for the period January 1, 1997 through April 30, 1999.

Background

The Superintendent's discretionary account has existed for sometime, the date of its original creation is unknown. During this Superintendent's tenure, there have been two increases in the level of funding, which is now \$118,200 annually. This funding comes from various unrestricted local revenue sources including donations from the VMI Foundation.

This account clearly falls within the definition of "public funds," however; the funding is not part of the appropriation process or the executive branch budget process. Therefore, we do not believe the money is subject to all the rules and regulations of central administrative agencies. As "public funds," the Code of Virginia and any limitations set by the Board of Visitors govern the use of these monies.

Scope of Review

We understand that the VMI Foundation provides separate funding for use by the Superintendent. This separate funding is under the direct control of the VMI Foundation and the Executive Director of the Foundation controls the flow and use of these funds to the Superintendent. These funds are not a part of this review.

The VMI Foundation funds three other restricted accounts directly under the control of the Superintendent. The Superintendent may only approve expense in accordance with the Foundation's restrictions. After discussion with staff and a general review of the expenses paid from these accounts, we determined that these accounts did not require additional review. We have therefore not included these accounts in this review.

Budgeting and Board of Visitor Guidelines for the Discretionary Account

According to the Business Executive, the Institute does not have the Board of Visitors set a separate budget for the account, but includes the account as part of its functional budget for an area. Any budgeted amount for the account within the total function budget area is an administrative responsibility. The staff reallocates resources to the accounts if expenses exceed the original budget. We can find no evidence that the Board of Visitors regularly reviews the use of the account or sets any budgetary guidelines.

Also, the Board of Visitors has not adopted any official guidelines for the use of these funds or limited the types of purchases. While certain administrative staff believe the account should comply with the Institute's internal policies, their actions do not support this belief.

Staff regularly received the invoices, reviewed credit card charges for this account, and manually prepared the checks for payment. However, we could find no evidence that the Staff questioned any purchases during this process. We also found several occasions where Staff acted to prevent the Superintendent from making purchases that would have resulted in a violation of State purchasing guidelines.

Criteria Used in Our Review

Without guidelines from the Board of Visitors, we reviewed the purchases from this account against the following criteria:

1. Did the purchase violate the Code of Virginia or State Purchasing guidelines?
2. Did the purchase have a clear benefit to the mission of the Institute? If not, did it appear that the Superintendent intentionally benefited from the purchase?
3. Did the Superintendent's actions create either a conflict of interest or the appearance of a conflict of interest?

Summary of Work

Primary charges against the account occur in three common methods. The first method is interdepartmental transfers or charges for services or goods provided by another Institute department. The most common interdepartmental transfer was for food services. The second method is a direct purchase in which the Institute receives an invoice and makes payment to the vendor using a check. The third and final method is the use of an American Express Small Purchase Credit Card.

We have prepared a series of computer spreadsheets that analyze all of the activity in this account for the period January 1, 1997 through April 30, 1999, including a detailed analysis of a payments made using the American Express Small Purchase Credit Card.

In addition, listed below is a summary of the amounts expended from the account for the last five fiscal years.

<u>Fiscal Year</u>	<u>Expenses</u>
1995	\$ 52,259
1996	135,670
1997	126,030
1998	161,005
1999	116,162

In addition to not questioning individual purchases in the past, the staff have had to reallocate resources when the Superintendent has incurred expenses more than the budget. This situation has required staff to move budgetary amounts from other accounts to the Superintendent's discretionary account. We could find no evidence of any action by either the Staff or the Board of Visitors to warn the Superintendent from overspending the budgeted amount until the last six months.

Findings

We found numerous purchases totaling \$46,776 that we could neither establish a clear benefit to the Institute nor could we determine that the Superintendent made these purchases intentionally for his personal use. We found purchases of \$10,634 for alcoholic beverages, \$18,604 for flowers, \$5,370 for gifts (excluding books written by the Superintendent and addressed separately below) and \$12,168 for the purchase of other books. We recommend that the Board of Visitors review these purchases with the Superintendent and determine if he should reimburse the Institute for these purchases.

Personal Expenses Paid From the Account

We also found two purchases totaling \$101.00 that we believe, are personal items, goods, or services. There was a reimbursement of \$88.50 for two Institute employees to take the Superintendent's son to dinner while the Superintendent was out of town. The second instance was a Federal express bill of \$12.50 for shipping a package to the Superintendent's daughter. These two expenses appear to be clearly personal. The Superintendent should immediately reimburse the account for this entire amount.

Possible Conflict of Interest

Finally, we found purchases for 101 books written by the Superintendent for use as gifts. These book purchases amounted to \$2,520. Based on information provided by the Superintendent, he received a flat advance from the publisher. The amount per volume of the initial printing would result in a recovery of approximately \$2.83 per volume. Based on the purchases, the potential value to the Superintendent is approximately \$285. This transaction represents in our opinion the appearance of a conflict of interest. The Board of Visitors should consider issuing a policy concerning the purchase of such items and the disposition of such earnings.

American Express Small Purchase Credit Card

The American Express Small Purchase Credit Card is a program sponsored by the Departments of Accounts and General Services. The purpose of the program is the reduction of the Commonwealth's need to prepare checks for small purchases. Additionally, the Commonwealth can analyze its small purchase activity and examine alternatives for these items.

We do not believe that the Institute should have used the small purchase card for this account. The Institute pays American Express for all small purchase card invoices by electronic funds transfer from a State account. The Institute then prepares a local fund check to reimburse the State account for local fund credit card purchases. This process requires staff to separate all charges on the American Express bill between charges to State accounts and local fund accounts. This process further adds to the confusion over the use of the Superintendent's discretionary account.

Control of the American Express Small Purchase Credit Card was extremely lax. Numerous individuals working for the Superintendent had both access and authorized use of the card. The Superintendent's office manager kept a log of all card purchases during the period. While we found no improper use of the card by others, the current lack of controls could allow its improper use.

The Institute should cancel the use of the American Express Small Purchase Credit Card for these accounts. If the Institute wants to use a credit card, it should get a separate credit card that is not part of the state program. Further, the Board of Visitors should restrict the Superintendent's distribution of the card.

Recommendations for Action by the Board of Visitors

In addition to the review and potential repayment of the transactions discussed above, we recommend the following actions should occur.

1. The Board of Visitors should adopt detailed guidelines for the use of this account and all other public funds under their control.
2. The Board of Visitors should set guidelines for Staff to report directly to a committee of the Board any action that does not comply with the guidelines above.
3. The Board of Visitors should determine if there are any funds outside the Institute's public funds available to the Superintendent for discretionary purchases and if it is appropriate for the Superintendent to have access to these funds.

Schedule of Purchases for Board of Visitors Review

	<u>Voucher</u>	<u>Date</u>	<u>Vendor</u>	<u>Amount</u>
Alcohol	1398	10/2/97	Aramark	\$ 253
	842	9/2/97	Bob Wells	372
	1602	10/13/97	Bob Wells	368
	3430	2/5/98	Bob Wells	346
	10556	4/27/99	Bob Wells	243
	10566	4/28/99	Bob Wells	9
	3632	2/18/97	N.H. Borgus, Sr.	70
	4307	10/29/98	Robert Wells	235
	5287	5/25/98	The Commonwealth Club	1,360
	5545	6/12/98	The Commonwealth Club	3
	4109	3/17/97	VMI Alumni	216
	4176	3/19/97	VMI Alumni	44
	5561	6/3/97	VMI Alumni	238
	2422	12/2/97	VMI Alumni	977
	5695	6/22/98	VMI Alumni	52
	5793	6/26/98	VMI Alumni	170
	5794	6/26/98	VMI Alumni	90
	5923	12/11/98	VMI Treasurer	60
	1110	9/16/97	Washington St. Purveyors	226
	1779	10/22/97	Washington St. Purveyors	240
	2128	11/12/97	Washington St. Purveyors	386
	2226	11/17/97	Washington St. Purveyors	81
	3460	2/6/98	Washington St. Purveyors	243
	3941	3/4/98	Washington St. Purveyors	162
	3126	1/22/97	Washington Street Purveyors	151
	3750	2/24/97	Washington Street Purveyors	191
	4966	5/1/97	Washington Street Purveyors	112
	5241	5/14/97	Washington Street Purveyors	181
	5370	5/22/97	Washington Street Purveyors	124
	5662	6/9/97	Washington Street Purveyors	259
	2580	9/16/98	Washington Street Purveyors	216
	2769	9/29/98	Washington Street Purveyors	567
	5489	11/23/98	Washington Street Purveyors	405
	5481	11/23/98	Washington Street Purveyors	113
	6714	1/11/99	Washington Street Purveyors	280
	9594	4/1/99	Washington Street Purveyors	271
	4615	4/16/97	Lexington Golf & Country Club	23
	661	7/24/98	Lexington Golf and Country Club	38
	9829	4/6/99	Lexington Golf and Country Club	48
	2094	11/12/97	Col. James N. Joyner, Jr.	8
	5024	5/8/98	Col. Thomas W. Davis	29
	2731	12/17/97	Historic Country Inss of Lexington	26
	4256	3/31/98	Historic Country Inss of Lexington	50
	2500	12/5/97	The Willson-Walker House Rest.	10
	2124	11/12/97	VMI Alumni	40
	2614	12/11/97	VMI Alumni	107
	9413	3/26/99	VMI Alumni Association	941
			Total Alcohol	<u>\$ 10,634</u>

<u>Voucher</u>	<u>Date</u>	<u>Vendor</u>	<u>Amount</u>
Flowers	1/8/97	University Florist	\$ 235
	1/10/97	University Florist	52
	1/15/97	Four Seasons Florist	64
	1/15/97	Four Seasons Florist	16
	1/16/97	Four Seasons Florist	31
	1/17/97	University Florist	23
	1/20/97	University Florist	94
	1/24/97	University Florist	63
	1/25/97	Four Seasons Florist	49
	1/27/97	Four Seasons Florist	40
	1/27/97	Jefferson Florist	10
	1/27/97	Jefferson Florist	35
	1/27/97	Jefferson Florist	18
	1/31/97	Four Seasons Florist	64
	1/31/97	University Florist	10
	2/3/97	University Florist	78
	2/3/97	University Florist	31
	2/6/97	University Florist	136
	2/7/97	University Florist	63
	2/13/97	Huffman Ware Florist	36
	2/13/97	University Florist	131
	2/20/97	University Florist	76
	3/1/97	Huffman Ware Florist	26
	3/10/97	Four Seasons Florist	20
	3/15/97	Huffman Ware Florist	69
	3/15/97	Huffman Ware Florist	41
	3/17/97	Four Seasons Florist	28
	3/18/97	Huffman Ware Florist	40
	3/25/97	University Florist	26
	3/31/97	University Florist	26
	4/1/97	Huffman Ware Florist	25
	4/1/97	Huffman Ware Florist	25
	4/3/97	University Florist	26
	4/15/97	University Florist	21
	4/21/97	Four Seasons Florist	34
	4/21/97	University Florist	78
	4/24/97	Four Seasons Florist	30
	5/5/97	Huffman Ware Florist	25
	5/6/97	Four Seasons Florist	30
	5/8/97	University Florist	31
	5/9/97	University Florist	21
	5/12/97	Jefferson Florist	121
	5/12/97	University Florist	105
	5/12/97	University Florist	63
	5/14/97	University Florist	183
	5/15/97	Four Seasons Florist	54
	5/15/97	Four Seasons Florist	25
	5/15/97	University Florist	105
	5/16/97	University Florist	37
	5/20/97	Huffman Ware Florist	190
	5/27/97	Four Seasons Florist	40
	5/27/97	Huffman Ware Florist	26
	6/5/97	Jefferson Florist	30
	6/9/97	Huffman Ware Florist	25
	6/10/97	University Florist	26

<u>Voucher</u>	<u>Date</u>	<u>Vendor</u>	<u>Amount</u>
Flowers	7/1/97	Jefferson Florist	65
	7/3/97	Jefferson Florist	42
	7/11/97	Jefferson Florist	50
	8/4/97	Huffman Ware Florist	20
	8/18/97	University Florist	95
	8/26/97	Huffman Ware Florist	45
	8/28/97	Jefferson Florist	162
	9/2/97	University Florist	94
	9/12/97	University Florist	209
	9/18/97	Huffman Ware Florist	33
	9/23/97	Huffman Ware Florist	45
	9/29/97	Huffman Ware Florist	35
	10/1/97	University Florist	82
	10/6/97	Huffman Ware Florist	45
	10/8/97	University Florist	251
	10/15/97	Jefferson Florist	50
	10/15/97	University Florist	25
	10/21/97	Jefferson Florist	44
	10/22/97	Four Seasons Florist	45
	10/23/97	Four Seasons Florist	25
	11/4/97	Huffman Ware Florist	25
	11/4/97	University Florist	53
	11/6/97	University Florist	152
	11/7/97	University Florist	52
	11/12/97	Jefferson Florist	42
	11/20/97	University Florist	114
	11/21/97	Jefferson Florist	56
	12/2/97	University Florist	385
	12/4/97	University Florist	110
	12/4/97	Wal-Mart	42
	12/5/97	University Florist	125
	12/9/97	Four Seasons Florist	29
	12/9/97	Four Seasons Florist	23
	12/10/97	Four Seasons Florist	25
	12/18/97	Four Seasons Florist	44
	12/29/97	Huffman Ware Florist	34
	12/29/97	Huffman Ware Florist	34
	12/29/97	Huffman Ware Florist	37
	12/29/97	Huffman Ware Florist	35
	12/29/97	Huffman Ware Florist	60
	1/12/98	Four Seasons Florist	48
	1/20/98	University Florist	75
	1/20/98	University Florist	375
	1/22/98	Four Seasons Florist	64
	1/22/98	Four Seasons Florist	54
	1/29/98	Jefferson Florist	43
	2/2/98	Huffman Ware Florist	25
	2/5/98	University Florist	1,419
	2/19/98	University Florist	95
	2/23/98	Four Seasons Florist	113
	3/3/98	Four Seasons Florist	39
	3/11/98	University Florist	133

<u>Voucher</u>	<u>Date</u>	<u>Vendor</u>	<u>Amount</u>
Flowers	3/23/98	University Florist	125
	3/24/98	Four Seasons Florist	45
	4/7/98	Jefferson Florist	220
	4/13/98	Huffman Ware Florist	44
	4/13/98	Huffman Ware Florist	50
	4/14/98	University Florist	333
	4/17/98	Jefferson Florist	26
	4/18/98	Four Seasons Florist	54
	4/18/98	Four Seasons Florist	54
	4/18/98	Four Seasons Florist	30
	4/21/98	Huffman Ware Florist	30
	4/22/98	Jefferson Florist	37
	4/24/98	Flowers & Things	28
	4/27/98	Huffman Ware Florist	25
	4/27/98	Huffman Ware Florist	25
	4/29/98	University Florist	60
	5/1/98	Flowers & Things	28
	5/1/98	Jefferson Florist	180
	5/5/98	University Florist	120
	5/11/98	Flowers & Things	73
	5/11/98	University Florist	50
	5/14/98	Jefferson Florist	105
	5/14/98	Jefferson Florist	170
	5/21/98	Huffman Ware Florist	44
	5/21/98	Huffman Ware Florist	190
	5/21/98	Huffman Ware Florist	25
	6/11/98	Huffman Ware Florist	30
	6/11/98	Huffman Ware Florist	35
	6/29/98	University Florist	85
	8/10/98	Huffman Ware Florist	25
	8/17/98	University Florist	100
	8/20/98	University Florist	100
	9/4/98	University Florist	235
	9/4/98	University Florist	25
	9/9/98	Flowers & Things	25
	9/10/98	University Florist	169
	9/15/98	Huffman Ware Florist	21
	9/15/98	University Florist	100
	9/24/98	University Florist	298
	9/30/98	University Florist	57
	10/5/98	Four Seasons Florist	262
	10/5/98	Huffman Ware Florist	25
	10/7/98	University Florist	85
	10/9/98	University Florist	122
	10/12/98	Huffman Ware Florist	40
	10/20/98	Four Seasons Florist	50
	10/20/98	University Florist	35
	10/22/98	University Florist	35
	10/23/98	University Florist	100
	10/27/98	Flowers & Things	44
	10/27/98	Flowers & Things	34
	10/27/98	Jefferson Florist	55
	10/29/98	Flowers & Things	42
	10/29/98	University Florist	160
	11/2/98	University Florist	60

<u>Voucher</u>	<u>Date</u>	<u>Vendor</u>	<u>Amount</u>
Flowers	11/6/98	Jefferson Florist	35
	11/6/98	University Florist	85
	11/9/98	University Florist	26
	11/11/98	Flowers & Things	28
	11/11/98	Flowers & Things	30
	11/13/98	University Florist	35
	11/13/98	University Florist	80
	11/24/98	University Florist	49
	11/27/98	Four Seasons Florist	93
	12/2/98	University Florist	147
	12/4/98	Huffman Ware Florist	29
	12/4/98	University Florist	59
	12/7/98	University Florist	249
	12/11/98	Flowers & Things	54
	12/14/98	University Florist	94
	12/14/98	University Florist	60
	12/17/98	Jefferson Florist	24
	12/21/98	University Florist	53
	12/30/98	Four Seasons Florist	34
	12/30/98	Four Seasons Florist	54
	1/4/99	Jefferson Florist	51
	1/12/99	Flowers & Things	26
	1/13/99	Huffman Ware Florist	45
	1/14/99	Four Seasons Florist	65
	1/18/99	Flowers & Things	55
	1/21/99	University Florist	60
	1/21/99	University Florist	150
	1/28/99	Flowers & Things	23
	1/28/99	Flowers & Things	55
	2/1/99	Flowers & Things	81
	2/8/99	Flowers & Things	89
	2/17/99	Flowers & Things	52
	2/18/99	University Florist	47
	2/23/99	Unviversity Florist	291
	2/24/99	Flowers & Things	87
	2/24/99	Unviversity Florist	35
	2/25/99	Four Seasons Florist	47
	2/26/99	Flowers & Things	52
	3/2/99	Unviversity Florist	50
	3/5/99	Unviversity Florist	75
	3/16/99	Jefferson Florist	35
	3/16/99	Unviversity Florist	191
	3/22/99	Flowers & Things	23
	3/24/99	Flowers & Things	51
	3/27/99	Flowers & Things	52
	3/27/99	University Florist	100
	4/1/99	University Florist	119
	4/2/99	Flowers & Things	33
	4/5/99	Flowers & Things	42
	4/8/99	Jefferson Florist	146
	4/9/99	University Florist	20
	4/9/99	University Florist	103
	4/15/98	Kroger	63
	No Date	Higher Education Publications, Inc.	153
3871	10/21/98	All About Landscaping	30

	<u>Voucher</u>	<u>Date</u>	<u>Vendor</u>	<u>Amount</u>
Flowers	5539	6/12/98	All About Landscaping & Gardens Cent.	56
	2381	12/2/97	Blue Ridge Garden Club	44
	2555	12/11/97	Blue Ridge Garden Club	56
	2566	9/16/98	Harris Teeter	17
	2464	12/5/97	Harris Teeter, Inc.	66
	5033	5/8/98	Harris Teeter, Inc.	5
	1671	8/21/98	Joe C. Shaner & Son, Inc.	50
	2177	9/3/98	Joe C. Shaner & Son, Inc.	36
	2583	9/16/98	Joe C. Shaner & Son, Inc.	54
	3149	10/1/98	Joe C. Shaner & Son, Inc.	13
	10860	5/6/99	Joe C. Shaner & Son, Inc.	61
	354	7/29/97	Joe C. Shaner and Sons, Inc.	7
	1095	9/16/97	Joe C. Shaner and Sons, Inc.	13
	2575	12/11/97	Joe C. Shaner and Sons, Inc.	92
	2574	12/11/97	Joe C. Shaner and Sons, Inc.	35
	4266	3/31/98	Joe C. Shaner and Sons, Inc.	30
	4552	4/15/98	Joe C. Shaner and Sons, Inc.	15
	4641	4/17/98	Joe C. Shaner and Sons, Inc.	43
	4885	5/4/98	Joe C. Shaner and Sons, Inc.	60
	4886	5/4/98	Joe C. Shaner and Sons, Inc.	13
	5290	5/25/98	Joe C. Shaner and Sons, Inc.	61
	5380	6/1/98	Joe C. Shaner and Sons, Inc.	150
	5409	5/27/97	Josiah Bunting III	169
	903	9/5/97	K-Mart	10
	1172	9/19/97	K-Mart	22
	2469	12/5/97	Kroger	30
	4367	10/30/98	Kroger	32
	4477	4/8/97	Mountain View Farm	69
	4897	5/4/98	Rockbridge Farmers Coop	62
	5565	6/12/98	Rockbridge Farmers Coop	40
	6032	12/14/98	Sexton Tree Lot	85
	5961	12/11/98	Harris Teeter	24
	4695	4/21/97	Harris Teeter, Inc.	6
	4349	4/1/97	Kroger	18
	1173	9/19/97	Kroger	13
	1575	10/10/97	Kroger	44
	Total Flowers			<u>\$ 18,604</u>
Gifts		1/23/97	Wallace's	\$ 109
		2/4/97	Wallace's	20
		2/7/97	Wallace's	50
		2/17/97	Wallace's	41
		3/10/97	Wallace's	135
		3/19/97	Wallace's	162
		3/20/97	Wallace's	37
		3/28/97	Wallace's	23
		4/14/97	Wallace's	58
		4/14/97	Wallace's	108
		4/15/97	Wallace's	25
		4/16/97	Wallace's	23
		4/17/97	Wallace's	46
		4/21/97	Wallace's	84
		4/25/97	Wallace's	57

	<u>Voucher</u>	<u>Date</u>	<u>Vendor</u>	<u>Amount</u>
Gifts		4/25/97	Wallace's	94
		5/9/97	Wallace's	144
		5/14/97	Wallace's	41
		8/26/97	Wallace's	141
		9/5/97	Wallace's	75
		9/9/97	Wallace's	100
		9/30/97	Wallace's	80
		10/1/97	Wallace's	18
		10/3/97	Wallace's	191
		10/3/97	Wallace's	299
		10/10/97	Wallace's	72
		10/13/97	Wallace's	40
		10/21/97	Wallace's	60
		10/27/97	Wallace's	80
		10/30/97	Wallace's	80
		11/10/97	Wallace's	44
		2/6/98	Wallace's	100
		3/13/98	Wallace's	42
		4/23/98	Wallace's	105
		4/24/98	Wallace's	148
		4/29/98	Wallace's	150
		5/1/98	Wallace's	12
		5/12/98	Wallace's	45
		5/12/98	Wallace's	110
		5/12/98	Wallace's	203
		8/10/98	Wallace's	38
		8/10/98	Wallace's	148
		8/11/98	Wallace's	20
		8/13/98	Wallace's	35
		8/27/98	Wallace's	20
		8/31/98	Wallace's	32
		9/3/98	Wallace's	68
		9/4/98	Wallace's	62
		9/8/98	Wallace's	119
		9/11/98	Wallace's	100
		9/15/98	Wallace's	109
		9/21/98	Wallace's	28
		9/23/98	Wallace's	40
		9/25/98	Wallace's	28
		9/28/98	Wallace's	188
		10/22/98	Wallace's	44
		10/30/98	Bookbound	49
		11/9/98	Wallace's	147
		12/4/98	Wallace's	209
		12/4/98	Wallace's	209
		1/14/99	Wallace's	27
		1/26/99	Bookbound	36
		4/9/99	Wallace's	162
			Total Gifts	<u>\$ 5,370</u>
Books		1/2/97	Bookbound	\$ 10
		1/15/97	Bookbound	114
		1/20/97	Bookbound	81

	<u>Voucher</u>	<u>Date</u>	<u>Vendor</u>	<u>Amount</u>
Books		1/20/97	Wallace's	115
		1/22/97	Bookbound	137
		1/24/97	Bookbound	220
		2/6/97	Bookbound	86
		2/6/97	Bookbound	97
		2/6/97	Bookbound	108
		2/12/97	Bookbound	199
		2/21/97	Bookbound	140
		2/25/97	Bookbound	28
		2/28/97	Bookbound	41
		3/26/97	Wallace's	139
		3/27/97	Bookbound	30
		4/2/97	Bookbound	261
		4/7/97	Bookbound	102
		4/14/97	Bookbound	55
		4/22/97	Bookbound	46
		5/1/97	Bookbound	39
		5/8/97	Bookbound	60
		5/14/97	Bookbound	95
		5/14/97	Wallace's	41
		5/16/97	Bookbound	30
		5/30/97	Bookbound	146
		6/11/97	Bookbound	56
		6/16/97	Best Seller	17
		7/15/97	Bookbound	128
		7/24/97	Bookbound	21
		8/19/97	Wallace's	44
		8/20/97	Bookbound	29
		9/11/97	Bookbound	85
		9/18/97	Bookbound	168
		9/23/97	Wallace's	250
		9/30/97	Bookbound	107
		10/13/97	Bookbound	140
		10/21/97	Bookbound	101
		10/24/97	Bookbound	48
		11/4/97	Bookbound	11
		12/5/97	Bookbound	40
		1/7/98	Wallace's	35
		1/9/98	Wallace's	144
		1/26/98	Bookbound	35
		1/29/98	Bookbound	46
		2/26/98	Wallace's	144
		3/23/98	Bookbound	95
		3/27/98	Wallace's	278
		3/31/98	Wallace's	13
		4/14/98	Wallace's	25
		4/27/98	Bookbound	25
		4/30/98	Wallace's	25
		5/6/98	Wallace's	75
		5/8/98	Wallace's	34
		5/11/98	Wallace's	9
		5/26/98	Wallace's	43
		6/4/98	Wallace's	14
		6/4/98	Wallace's	88
		6/15/98	Bookbound	38

	<u>Voucher</u>	<u>Date</u>	<u>Vendor</u>	<u>Amount</u>
Books		6/18/98	Wallace's	34
		6/19/98	Wallace's	16
		6/19/98	Wallace's	191
		6/22/98	Wallace's	18
		6/22/98	Wallace's	33
		6/25/98	Bookbound	32
		7/1/98	Wallace's	147
		7/13/98	Bookbound	27
		7/22/98	Bookbound	81
		7/22/98	Wallace's	113
		7/24/98	Wallace's	19
		7/29/98	Amazon Inc.	10
		7/30/98	Amazon Inc.	14
		8/12/98	Wallace's	55
		8/25/98	Bookbound	64
		9/22/98	Bookbound	66
		9/24/98	Bookbound	209
		10/2/98	Bookbound	67
		10/7/98	Bookbound	87
		10/8/98	Wallace's	14
		10/9/98	Bookbound	27
		10/15/98	Bookbound	106
		10/15/98	Wallace's	24
		10/20/98	Bookbound	114
		10/23/98	Bookbound	413
		10/26/98	Bookbound	30
		10/30/98	Bookbound	50
		11/12/98	Bookbound	79
		11/16/98	Bookbound	18
		11/19/98	Bookbound	37
		12/1/98	Bookbound	142
		12/1/98	Wallace's	8
		12/2/98	Bookbound	256
		12/8/98	Bookbound	70
		12/9/98	Bookbound	45
		12/22/98	Bookbound	83
		1/4/99	Bookbound	200
		1/8/99	Bookbound	23
		1/11/99	Wallace's	74
		1/20/99	Bookbound	92
		1/21/99	Wallace's	13
		1/26/99	Bookbound	36
		1/29/99	Bookbound	36
		2/3/99	Bookbound	24
		2/10/99	Wallace's	77
		2/26/99	Bookbound	40
		3/5/99	Wallace's	268
		3/8/99	Bookbound	32
		3/24/99	Wallace's	77
		4/6/99	Bookbound	63
		4/14/99	Bookbound	34
		4/16/99	Bookbound	29
	5008	5/6/97	AGC, Inc.	294
	4466	4/8/97	Groton School Book Store	27
	2586	12/11/97	Potomac Review	32

	<u>Voucher</u>	<u>Date</u>	<u>Vendor</u>	<u>Amount</u>
Books	437	8/6/97	The Bookery	25
	3823	2/27/98	The Bookery	41
	3942	3/4/98	Word Ministry Resources	3,001
			Total Books	<u>\$ 12,168</u>
			Grand Total	<u><u>\$ 46,776</u></u>

NOTE--The items above without a voucher number were purchased using the American Express Small Purchase Credit Card.

April 30, 1999

The Honorable James S. Gilmore III
Governor of Virginia

The Honorable W. Richard J. Holland
Chairman, Joint Legislative Audit
and Review Commission

The Board of Visitors
Virginia Military Institute

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

We have audited the balance sheet of **Virginia Military Institute** as of June 30, 1998, and the related statements of changes in fund balances and current funds revenues, expenditures, and other changes for the year then ended. These financial statements are the responsibility of the Institute's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Virginia Military Institute as of June 30, 1998, and the changes in fund balances and current funds revenues, expenditures, and other changes for the year then ended, in conformity with generally accepted accounting principles.

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying "Schedule of Auxiliary Enterprises Revenues and Expenditures" is presented for the purpose of additional analysis and is not a required part of the financial statements of the Institute. The information in that schedule has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, such information is fairly presented in all material respects in relation to the financial statements taken as a whole.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL
CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements of Virginia Military Institute as of and for the year ended June 30, 1998, we considered internal controls over financial reporting and tested compliance with certain provisions of laws, regulations, contracts, and grants in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards.

Compliance

As part of obtaining reasonable assurance about whether the Institute's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Institute's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Institute's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the section entitled, "Internal Control Findings and Recommendations."

We believe none of the reportable conditions described above are material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses.

This report is for the information of the Governor, and General Assembly, Board of Visitors, audit committee, management, and the people of the Commonwealth of Virginia and is a public record.

EXIT CONFERENCE

We discussed this report with management on June 4, 1999.

AUDITOR OF PUBLIC ACCOUNTS

JEG:whb
whb:73

INTERNAL CONTROL FINDINGS AND RECOMMENDATIONS

Develop and Implement a Comprehensive Information Security Program

The Institute does not have a comprehensive integrated information security program. The Institute implemented its information systems over time and addressed security concerns within individual systems. With the implementation of distributed automated systems, it is essential for the Institute to develop a comprehensive information security program that addresses managing security with a variety of users having access to different systems.

To develop a comprehensive information security program, the Council on Information Management recommends a five-step approach. These steps require conducting and issuing a business impact analysis and risk assessment, a contingency management plan, a disaster recovery plan, and an information security plan. The final step is implementation that includes developing procedures for reviewing, updating, and changing the plans to address new situations and technology. Underlying this approach is the need for the Institute to develop and use a common definition and understanding of what information and resources the Institute has, and who has responsibility for this information and resources.

A business impact analysis is a process to identify all potentially sensitive information regardless of where it resides. Sensitive information may be confidential and/or critical to the Institute's mission and requires protection against unauthorized use or disclosure. A risk assessment provides a measure of the relative vulnerabilities and threats to information resources so that an organization can implement appropriate security safeguards to minimize the potential impact on operations. The risk assessment allows the Institute to set a level of risk it finds acceptable by balancing the risks, vulnerabilities, threats, and countermeasures and their impact on operations. The business impact analysis and risk assessment are the cornerstones of an effective information security program.

The Institute has completed a business impact analysis and risk assessment and substantially completed contingency management and disaster recovery plans on its administrative systems. As its next step, the Institute should extend these plans to include all computerized information including academic computing and the local area network. The Institute's risk assessment should address the known risks of user ID's and passwords flowing unencrypted over the network and the need for firewalls to protect the network from unauthorized users. In addition to these plans, operating departments should also develop contingency management and disaster recovery plans that address how their department would provide essential services without computer support.

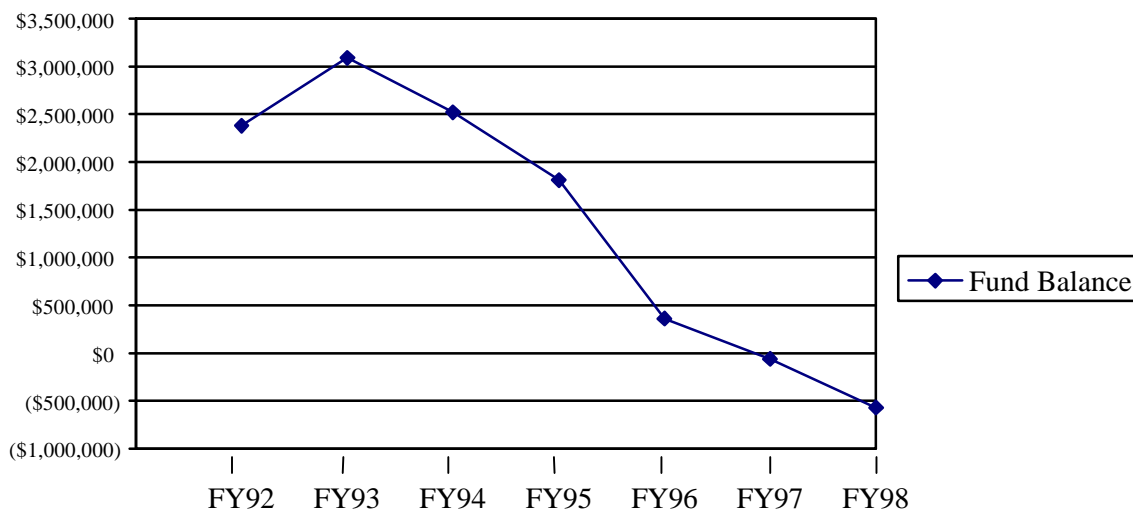
The Institute should update its information systems policies and procedures for changes arising from the implementation of new systems. Comprehensive policies and procedures should include administrative systems, academic computing, and the local area network. Finally, the Institute should develop procedures for reviewing, updating, and changing the plans to address new situations and technology.

The responsibility and accountability for an effective information security program must begin at the Executive Management level and flow down through the Institute to the individual user. The Institute's information security program should include security awareness and training programs to ensure employees involved in the management, operation, programming, maintenance, or use of information systems are aware of their security responsibilities and know how to fulfill them. It is essential for Executive Management to provide guidance, continuing support, and involvement in the program.

Strengthen Budgeting Procedures for Auxiliary Enterprises

The Institute's auxiliary enterprises fund balance has decreased significantly in recent years to a deficit of \$570,410 on an accrual basis for the year ended June 30, 1998. In fiscal year 1993, the Institute decided to use a large portion of the fund balance to finance planned capital projects.

More recently, however, a significant portion of the decrease comes from incurring expenses not included in the adopted auxiliary enterprises operating budget. The Institute expended this unbudgeted amount without a corresponding increase in revenues. If management does not reverse this trend, it could lead to serious financial difficulties for the Institute. The decline in the fund balance is illustrated in the graph below:



The Institute should carefully review its budgeting procedures for auxiliary enterprises. The Board of Visitors' Audit, Finance, and Planning Committee has proposed a resolution that would prohibit the Institute from spending auxiliary funds for items not included in the operating budget approved by the Board. We strongly endorse the Committee's proposed resolution. We also understand that the Institute is developing a plan to increase auxiliary fund balances to a level that has an adequate reserve for maintenance and contingencies. The Institute should implement and follow this plan.

Comply with Institute Payment Policy

In two instances, the Superintendent allowed cadets who owed tuition and fees from previous semesters to register for classes. Institute policy states that cadets must satisfy all financial obligations to the Institute for past semesters before they are allowed to register for any succeeding semester. Noncompliance with this registration procedure increases the risk of delinquent accounts. The Institute should comply with its payment policy for class registration.

FINANCIAL STATEMENTS

VIRGINIA MILITARY INSTITUTE
BALANCE SHEET
As of June 30, 1998
(With Comparative Figures for 1997)

A S S E T S	1997		LIABILITIES AND FUND BALANCES	1997	
	1998	(as restated)		1998	(as restated)
Current Funds:			Current Funds:		
Unrestricted:			Unrestricted:		
Cash and cash equivalents (Note 3)	\$ 849,530	\$ 1,854,281	Accounts payable and accrued liabilities (Note 7)	\$ 2,528,805	\$ 2,545,132
Investments (Note 3)	64,496	59,193	Deferred revenue	694,124	516,877
Investments, securities lending (Note 6)	49,893	-	Compensated absences	1,081,564	1,000,466
Accounts receivable (Net of allowance for doubtful accounts of \$30,935 in 1998 and \$33,480 in 1997)	187,927	218,168	Obligations under securities lending transactions (Note 7)	49,893	-
Appropriations available	11,209	-	Due to the Commonwealth-Petty cash advance	10,000	10,000
Notes receivable	210,000	210,000	Due to other funds	7,667	32,145
Accrued interest receivable	12,140	33,730	Fund balance (deficit)	(552,967)	(244,985)
Inventories	1,998,061	1,091,666			
Prepaid expenditures	391,645	321,517			
Due from other funds	44,185	71,080			
Total unrestricted	3,819,086	3,859,635	Total unrestricted	3,819,086	3,859,635
Restricted:			Restricted:		
Cash and cash equivalents (Note 3)	425,258	396,503	Accounts payable and accrued liabilities	48,164	95,983
Accounts receivable (Net of allowance for doubtful accounts of \$16 in 1998 and \$27 in 1997)	17,383	9,103	Due to other funds	28,187	56,890
Accrued interest receivable	51,359	103,774	Fund balance	506,122	492,561
Appropriations available	1,843	-			
Notes receivable	79,000	104,000			
Due from other funds	7,630	32,054			
Total restricted	582,473	645,434	Total restricted	582,473	645,434
Total current funds	\$ 4,401,559	\$ 4,505,069	Total current funds	\$ 4,401,559	\$ 4,505,069
Loan funds:			Loan funds:		
Cash and cash equivalents (Note 3)	\$ 111,941	\$ 100,640	Fund balances:		
Investments (Note 3)	186,862	157,309	U.S. Government grants refundable	\$ 973,970	\$ 893,507
Loans receivable (Net of allowance for doubtful loans of \$163,446 in 1998 and \$150,928 in 1997)	942,436	858,424	Institutional funds:		
Accrued interest receivable	573	1,092	Restricted	281,029	247,016
Total loan funds	\$ 1,241,812	\$ 1,117,465	Matching	(13,187)	(23,058)
Endowment funds:			Total loan funds	\$ 1,241,812	\$ 1,117,465
Cash and cash equivalents (Note 3)	-	\$ 308,879	Endowment funds:		
Investments (Note 3)	17,317,124	15,794,629	Fund balances:		
Total endowment funds	\$ 17,317,124	\$ 16,103,508	Endowment	\$ 1,262,876	\$ 1,247,876
Plant funds:			Quasi-endowment - unrestricted	2,545,376	3,701,028
Unexpended plant funds:			Quasi-endowment - restricted	13,508,872	11,154,604
Cash and cash equivalents (Note 3)	\$ 60,789	\$ 60,789	Total endowment funds	\$ 17,317,124	\$ 16,103,508
Total unexpended plant funds	60,789	60,789	Plant funds:		
Renewals and replacements:			Unexpended plant funds:		
Cash and cash equivalents (Note 3)	(937,362)	1,587,906	Fund balance - unrestricted	\$ 36,400	\$ 36,400
Appropriations available	2,480,922	2,980,370	Fund balance - restricted	24,389	24,389
Total renewals and replacements	1,543,560	4,568,276	Total unexpended plant funds	60,789	60,789
Retirement of indebtedness:			Renewals and replacements:		
Accounts receivable	14,834	11,892	Accounts payable	654,687	558,366
Total retirement of indebtedness	14,834	11,892	Retainage payable (Note 11)	16,757	38,385
Investment in plant:			Compensated absences	34,106	32,331
Land	1,227,806	1,227,806	Fund balance - restricted	838,010	3,939,194
Land improvements	2,039,190	1,539,699	Total renewals and replacements	1,543,560	4,568,276
Buildings	71,182,735	68,337,822	Retirement of indebtedness:		
Equipment	7,147,785	7,440,072	Accrued interest	21,779	20,281
Library books	8,479,125	8,183,165	Fund balance	(6,945)	(8,389)
Construction in progress	2,112,661	1,769,223	Total retirement of indebtedness	14,834	11,892
Equity in equipment trust fund	62,698	18,598	Investment in plant:		
Total investment in plant	92,252,000	88,516,385	Long-term indebtedness (Note 7)	1,527,284	1,919,488
Total plant funds	\$ 93,871,183	\$ 93,157,342	Installment purchase obligation (Note 7)	51,343	44,437
Agency funds:			Capital leases payable (Note 8)	1,103,134	988,501
Cash and cash equivalents (Note 3)	\$ 72,643	\$ 97,007	Due to other funds	15,998	14,190
Accounts receivable	4,983	6,644	Net investment in plant - unrestricted	89,554,241	85,549,769
Due from other funds	37	91	Total investment in plant	92,252,000	88,516,385
Total agency funds	\$ 77,663	\$ 103,742	Total plant funds	\$ 93,871,183	\$ 93,157,342
			Agency funds:		
			Accounts payable and accrued liabilities	\$ 1,468	\$ 25,430
			Deposits held in custody for others	76,195	78,312
			Total agency funds	\$ 77,663	\$ 103,742

The accompanying notes to financial statements are an integral part of this statement.

VIRGINIA MILITARY INSTITUTE
STATEMENT OF CHANGES IN FUND BALANCES
For the Year Ended June 30, 1998

	Current Funds		Loan Funds	Endowment and Similar Funds	Plant Funds			
	Unrestricted	Restricted			Unexpended	Renewals and Replacements	Retirement of Indebtedness	Investment in Plant
Revenues and other additions:								
Unrestricted current fund revenues	\$ 30,916,640	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
State appropriations-restricted	-	494,758	-	-	-	900,784	236,498	-
Federal grants and contracts-restricted	-	3,076,734	-	-	-	-	-	-
State grants and contracts-restricted	-	45,267	-	-	-	-	-	-
Private gifts, grants, and contracts-restricted	-	4,710,924	-	35,000	-	-	440,721	24,971
Sales and services of educational departments - restr	-	11,327	-	-	-	-	-	-
Investment income-restricted	-	1,219	-	-	-	-	6,625	-
Endowment income-restricted	-	392,383	3,448	-	-	-	-	-
Interest on loans receivable	-	-	14,765	-	-	-	-	-
Realized gains on investment - restricted	-	-	31,107	3,142,595	-	-	-	-
U.S. government advances	-	-	67,630	-	-	-	-	-
Expended for plant facilities (including \$786,751 charged to current fund expenditures)	-	-	-	-	-	-	-	4,349,775
Retirement of indebtedness	-	-	-	-	-	-	-	629,607
Other sources	-	7,447	2,047	-	-	-	-	-
Total revenues and other additions	30,916,640	8,740,059	118,997	3,177,595	-	900,784	683,844	5,004,353
Expenditures and other deductions:								
Educational and general	20,188,415	8,611,895	-	-	-	-	-	-
Auxiliary enterprises	9,763,868	23,608	-	-	-	-	-	-
Unique military activities	3,184,703	-	-	-	-	-	-	-
Indirect cost recovered	-	19,868	-	-	-	-	-	-
Loan cancellations and write-offs	-	-	16,517	-	-	-	-	-
Administrative and collection costs	-	-	676	-	-	-	-	-
Expended for plant facilities (including noncapitalized expenditures of \$438,944)	-	-	-	-	-	4,001,968	-	-
Retirement of indebtedness	-	-	-	-	-	-	629,607	-
Interest on indebtedness	-	-	-	-	-	-	146,367	-
Disposal of plant facilities	-	-	-	-	-	-	-	1,006,506
Total expenditures and other deductions	33,136,986	8,655,371	17,193	-	-	4,001,968	775,974	1,006,506
Transfers among funds-additions (deductions):								
Mandatory:								
Debt service	(22,690)	-	-	-	-	-	22,690	-
Loan fund matching grant	(22,543)	-	22,543	-	-	-	-	-
Nonmandatory transfers	1,957,597	(71,127)	-	(1,963,979)	-	-	70,884	6,625
Total transfers among funds	1,912,364	(71,127)	22,543	(1,963,979)	-	-	93,574	6,625
Net increase (decrease) for the year	(307,982)	13,561	124,347	1,213,616	-	(3,101,184)	1,444	4,004,472
Fund balances (deficits) at beginning of year, as restated	(244,985)	492,561	1,117,465	16,103,508	60,789	3,939,194	(8,389)	85,549,769
Fund balances (deficits) at end of year (Note 12)	\$ (552,967)	\$ 506,122	\$ 1,241,812	\$ 17,317,124	\$ 60,789	\$ 838,010	\$ (6,945)	\$ 89,554,241

The accompanying notes to financial statements are an integral part of this statement.

VIRGINIA MILITARY INSTITUTE
STATEMENT OF CURRENT FUNDS REVENUES, EXPENDITURES AND OTHER CHANGES
For the Year Ended June 30, 1998
(With Comparative Figures for 1997)

	1998			1997
	Unrestricted	Restricted	Total	Total
Revenues:				
Student tuition and fees	\$ 8,679,507	\$ -	\$ 8,679,507	\$ 7,603,949
State appropriations: (Note 10)				
Educational and general	8,479,051	490,710	8,969,761	8,582,336
Unique military activities	2,670,372	-	2,670,372	2,432,772
Federal grants and contracts	77,419	3,061,027	3,138,446	2,634,356
State grants and contracts	-	69,491	69,491	72,826
Private gifts, grants, and contracts	1,051,302	4,686,613	5,737,915	4,916,062
Investment income	26,780	4,952	31,732	25,833
Endowment income	97,909	302,325	400,234	424,333
Sales and services of educational departments	200,448	20,385	220,833	125,101
Sales and services of auxiliary enterprises	8,298,815	-	8,298,815	7,755,890
Sales and services of unique military activities	750,391	-	750,391	618,474
Other sources				
Concessions, rents and commissions	201,008	-	201,008	196,230
New Market Battlefield Historical Park	220,336	-	220,336	233,101
Miscellaneous	163,302	-	163,302	453,001
Total current revenues	30,916,640	8,635,503	39,552,143	36,074,264
Expenditures and mandatory transfers:				
Educational and general:				
Instruction	8,925,348	677,061	9,602,409	8,568,113
Research	16,333	47,366	63,699	83,361
Public service	734,886	71,754	806,640	787,352
Academic support	2,825,838	397,002	3,222,840	2,893,608
Student services	1,348,000	334,138	1,682,138	1,886,717
Institutional support	3,813,684	66,408	3,880,092	2,928,971
Operation and maintenance of plant	2,231,443	61,321	2,292,764	2,403,741
Scholarships, fellowships, and grants	292,883	6,956,845	7,249,728	5,931,270
Educational and general expenditures	20,188,415	8,611,895	28,800,310	25,483,133
Mandatory transfers for:				
Debt service	22,690	-	22,690	22,690
Loan fund matching grant	22,543	-	22,543	13,116
Total educational and general	20,233,648	8,611,895	28,845,543	25,518,939
Auxiliary enterprises:				
Expenditures	9,763,868	23,608	9,787,476	8,731,007
Unique military activities:				
Expenditures	3,184,703	-	3,184,703	3,433,806
Total expenditures and mandatory tra	33,182,219	8,635,503	41,817,722	37,683,752
Other transfers and additions (deductions):				
Nonmandatory transfers	1,957,597	(71,127)	1,886,470	1,166,240
Excess of restricted receipts over transfers to revenue	-	84,688	84,688	33,574
Net increase (decrease) in fund balan	\$ (307,982)	\$ 13,561	\$ (294,421)	\$ (409,674)

The accompanying notes to financial statements are an integral part of this statement.

NOTES TO FINANCIAL STATEMENTS

VIRGINIA MILITARY INSTITUTE

NOTES TO FINANCIAL STATEMENTS

AS OF JUNE 30, 1998

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Virginia Military Institute have been prepared in accordance with generally accepted accounting principles for colleges and universities. The significant accounting policies followed by the Institute are as follows:

A. Reporting Entity

The mission of Virginia Military Institute is to educate young men and women for a wide variety of careers and to prepare them to serve as officers in the armed forces.

A separate report is prepared for the Commonwealth of Virginia that includes all agencies, boards, commissions, and authorities over which the Commonwealth exercises or has the ability to exercise oversight authority. The Institute is a component unit of the Commonwealth of Virginia and is included in the general purpose financial statements of the Commonwealth.

B. Basis of Accounting

The financial statements have been prepared on the accrual basis of accounting under which revenues are recorded when earned and expenses are recorded at the time liabilities are incurred through the receipt of goods and services.

C. Fund Accounting

To ensure observance of limitations and restrictions placed on the use of resources, the accounts are maintained in accordance with the principles of "fund accounting." Resources are classified for accounting and reporting purposes into funds that may be used for activities or objectives specified. Separate accounts are maintained for each fund; however, in the accompanying financial statements, funds that have similar characteristics have been combined into fund groups. Accordingly, fund group has recorded all financial transactions.

Within each fund group, fund balances restricted by outside sources are so indicated and are distinguished from unrestricted funds allocated to specific purposes by action of the Board of Visitors. Externally restricted funds may only be utilized in accordance with the purposes established by the source of such funds and are in contrast with unrestricted funds over which the governing board retains full control and use in achieving any of its institutional purposes, subject only to the prescribed policies governing the use of state appropriations.

Unrestricted revenue is accounted for in the Current Unrestricted Fund. Restricted gifts, grants, appropriations, and other restricted resources are accounted for in the appropriate restricted funds. Restricted Current funds are reported as revenues and expenditures when expended for current operating purposes.

A summary of fund group definitions is as follows:

Current Funds - Current fund balances are separated into those which are restricted by donors and those which are unrestricted. Restricted funds may only be expended for the purpose indicated by the donor or grantor; whereas, unrestricted funds are available for current operations at the discretion of the Institute.

Loan Funds - Loan funds represent funds that are limited by the terms of their donors or by action of the Board of Visitors for the purpose of making loans to students.

Endowment and Similar Funds - Endowment funds are subject to the restrictions of gift instruments requiring in perpetuity that the principal be invested and the income only be utilized. While quasi-endowment funds have been established by the Board of Visitors for the same purposes as endowment funds, any portion of quasi-endowment funds may be expended.

Plant Funds - Plant funds are divided into four groups: unexpended plant, renewals and replacements, retirement of indebtedness, and net investment in plant. Unexpended plant funds represent funds that were specified by external sources or designated by the Board of Visitors for the acquisition or construction of physical properties. Renewals and replacements plant funds represent funds that are specified by external sources or designated by the Board of Visitors for the renovation and replacement of physical properties. The retirement of indebtedness fund includes resources held for the retirement of both principal and interest on debt sinking funds established under bond indentures. Net investment in plant represents the capitalized value of physical property owned by the Institute less any associated long-term debt.

Agency Funds - Agency funds reflect funds held by the Institute as custodian or fiscal agent for others.

D. Investments

Investments are recorded at fair market value in accordance with GASB 31 of the Governmental Accounting Standards Board (GASB). Gains and losses arising from the sale, collection, or other disposition of investments and other non-cash assets are accounted for in the fund that owned such assets. Income derived from investments is accounted for in the fund owning such assets, except for income derived from investments of endowment funds which

income is accounted for in the fund to which it is restricted or, if unrestricted, as revenue in unrestricted current funds.

E. Inventory

Inventories are valued at cost using the first-in, first-out method.

F. Compensated Absences

Non-faculty salaried employees' attendance and leave regulations make provision for the granting of a specified number of days of leave with pay each year. Faculty employees do not earn leave. The amount of leave earned but not taken as of June 30, 1998 and 1997, is recorded on the balance sheet. The liability reflects all earned vacation, compensatory, and overtime leave not taken as well as the amount payable under the Commonwealth of Virginia's sick leave pay-out policy upon termination, which is the lesser of 25 percent of sick leave not taken or \$5,000 per employee with five or more years of service. Also included is an estimation of sick leave for those employees who, while not currently vested, will probably attain the five years of service required to vest. The last element reflected in this liability is social security and Medicaid taxes to be paid by the Institute on all accrued compensated absences.

G. Investment in Plant

Buildings and equipment are stated at appraised value or actual cost where determinable. Land is stated at cost. Construction is capitalized as expended and reflected in net investment in plant. Current fund expenditures of \$10,000 or greater for renewals and replacements are capitalized only to the extent that such expenditures represent long-term improvements to properties. Current fund expenditures for equipment are capitalized when the unit acquisition cost is \$5,000 or greater and the estimated useful life is two years or more. Library acquisitions are capitalized using published average prices for library acquisitions. The accompanying financial statements include no provision for depreciation of plant assets.

To the extent that current funds are used to finance plant assets, the amounts so provided are accounted for as (1) expenditures, in the case of normal replacement of movable equipment and library books, (2) mandatory transfers, in the case of required provisions for debt amortization and interest, and equipment renewal and replacement, and (3) transfers of a non-mandatory nature for all other cases. Plant assets, at the time of disposal, revert to the Commonwealth of Virginia for disposition. Proceeds, if any, may be returned to the Institute.

H. Deferred Revenue

Deferred revenue represents revenues collected, but not earned, as of June 30, 1998 and 1997. This is primarily composed of revenue for student tuition and fees accrued in advance of the next semester or term.

2. **AFFILIATED ORGANIZATION**

The financial statements do not include the assets, liabilities, and fund balances of the Virginia Military Institute Research Laboratories, Incorporated (Research Laboratory). The Research Laboratory, a private, non-profit Virginia corporation, was established to encourage and promote

scientific investigations and other types of research by the faculty, staff, and students. The Research Laboratory was audited by other auditors whose report was furnished to the Institute. Amounts summarized below are based solely upon the report of the other auditor.

The following is a condensed summary of the financial position of the Research Laboratory as of June 30:

	<u>1998</u>	<u>1997</u>
Assets	<u>\$ 230,063</u>	<u>\$ 280,940</u>
Liabilities and fund balances:		
Liabilities	\$ 93,679	\$ 166,263
Fund balances	<u>136,384</u>	<u>114,677</u>
Total liabilities and fund balances	<u>\$ 230,063</u>	<u>\$ 280,940</u>

The cash receipts and disbursements of the Research Laboratory were \$402,040 and \$380,333 respectively, for the year ended June 30, 1998, and \$501,126 and \$490,197 respectively, for the year ended June 30, 1997.

3. CASH AND CASH EQUIVALENTS AND INVESTMENTS

All state funds of the Institute are held by the Treasurer of Virginia pursuant to Section 2.1-177, et seq., Code of Virginia, who is responsible for the collection, disbursement, custody and investment of state funds. Cash and cash equivalents represents cash with the Treasurer, cash in banks, and cash deposits and short-term investments with original maturities of three months or less. Cash deposits held by the Institute are maintained in accounts that are covered by federal depository insurance or collateralized in accordance with the Virginia Security for Public Deposits Act, Section 2.1-359 of the Code of Virginia.

The VMI Investment Committee is responsible for the management of the endowment and similar funds, loan funds of the Institute, and investments of certain other entities affiliated with the Institute. The Institute's investments, including cash equivalents, are categorized to give an indication of the level of credit risk assumed by the Institute. Credit risk is the risk that the Institute may not be able to obtain possession of its investment or collateral at maturity. Investments, including cash equivalents are categorized as described below to give an indication of the level of credit risk assumed by the Institute at June 30, 1998 and 1997:

- Category 1 - Insured or registered securities or securities held by the Institute or its agent in the Institute's name.
- Category 2 - Uninsured or unregistered, with securities held by the counterparty's trust department or agent in the Institute's name.
- Category 3 - Uninsured or unregistered with securities held by the counterparty, or by its trust department or agent, but not in the Institute's name.
- Non-categorized - Money market or equity in pooled investments.

	June 30, 1998	June 30, 1997
	Fair Value	Fair Value (as restated)
Cash and Cash Equivalents		
Cash on Hand	\$ 6,240	\$ 5,460
Cash in Banks	50,156	229,362
Cash with the Treasurer of Virginia	424,760	3,737,589
US Agency Securities (Category 3)	-	98,784
Repurchase agreement (Category 3)	<u>101,643</u>	<u>334,810</u>
Total Cash and Cash Equivalents	<u>\$ 582,799</u>	<u>\$ 4,406,005</u>
Investments		
Common Stock (Category 2 in 1998; category 1 in 1997)	\$ 13,949,544	\$ 1,760
US Treasury and Agency Securities (Category 2)	2,238,806	-
Corporate Notes (Category 2)	1,236,246	-
Non-categorized	<u>143,886</u>	<u>16,009,371</u>
Total investments	<u>\$ 17,568,482</u>	<u>\$ 16,011,131</u>

	June 30, 1998		June 30, 1997	
	Cash and Cash Equivalents	Investments	Cash and Cash Equivalents	Investments
Current funds:				
Unrestricted	\$ 849,530	\$ 64,496	\$ 1,854,281	\$ 59,193
Restricted	425,258	-	396,503	-
Loan funds	111,941	186,862	100,640	157,309
Endowment funds	-	17,317,124	308,879	15,794,629
Plant funds:				
Unexpended	60,789	-	60,789	-
Renewals and replacements	(937,362)	-	1,587,906	-
Agency funds	<u>72,643</u>	<u>-</u>	<u>97,007</u>	<u>-</u>
Total	<u>\$ 582,799</u>	<u>\$ 17,568,482</u>	<u>\$ 4,406,005</u>	<u>\$ 16,011,131</u>

4. RESTATEMENT OF FUND BALANCES

Effective July 1, 1997, the Institute adopted the provisions of Statement Number 31 of the Governmental Accounting and Standards Board, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. The statement established fair value accounting and financial reporting standards for investments in interest-earning investment contracts, external investment pools, open-end mutual funds, debt securities, and equity securities. All investment income, including changes in the fair value of investments, is reported as revenue in the Statement of Changes in Fund Balances and in the Statement of Current Funds Revenues, Expenditures, and Other Changes.

The Institute has retroactively applied the accounting changes by restating the financial statements for the year ended June 30, 1997. Investment and fund balance totals have been restated to reflect the difference between cost and fair value of the investments held as of June 30, 1997. The following schedule reflects the restatement.

Current Funds Unrestricted	June 30, 1997 (originally reported)	Adjustments	June 30, 1997 (as restated)
Investments	\$ 57,433	\$ 1,760	\$ 59,193
Fund balance	(246,745)	1,760	(244,985)

5. FUNDS HELD IN TRUST BY OTHERS

Assets of funds held by trustees for the benefit of the Institute are not reflected in the accompanying balance sheet. The Institute has irrevocable rights to all or a portion of the income of these funds. However, assets of the funds are not under the management discretion of the Institute according to the trust agreements. Income from funds held by trustees for the benefit of the Institute totaled \$58,279 and \$55,463 for the years ended June 30, 1998 and 1997, respectively, and is included in restricted endowment income.

6. SECURITIES LENDING TRANSACTIONS

The Investments under securities lending represent the Institute's allocated share of securities received for securities lending transactions held in the General Account of the Commonwealth. Information related to the credit risk of these investments and securities lending transactions held in the General Account is available on a statewide level in the Commonwealth of Virginia's Comprehensive Annual Financial Report.

7. LONG-TERM INDEBTEDNESS

	<u>1998</u>	<u>1997</u>
<u>Bonds Payable</u>		
Higher Educational Institutional Refunding Bonds, 1992 Series R, issued \$3,119,262, balance payable in annual installments varying from \$281,498 to \$409,489 with interest at 5 percent to 5.6 percent payable semi-annually, the final installment of \$409,489 due in 2002. The principal and interest is to be repaid by the VMI Development Board and the VMI Foundation on a year-to-year basis as a gift to the Institute. Should the gift be discontinued, repayment will be made by charging an additional comprehensive cadet fee.	\$1,527,284	\$1,867,333

Loans Payable

Repayment agreement with ARASERV, Inc., for capital improvements of \$500,000 made in Crozet Hall in connection with the Institute's food service operations for cadets, payable in monthly installments through March 1998 with no interest. Equipment title to pass to Institute upon completion of payments.

\$ _____ - \$ 52,155

Total long-term debt \$1,527,284 \$1,919,488

Maturities of long-term debt for each of the four years succeeding June 30, 1998 are as follows:

<u>Year</u>	<u>Amount</u>
1999	\$ 355,407
2000	369,703
2001	392,685
2002	<u>409,489</u>
Total	<u>\$1,527,284</u>

Other Long-Term Debt

The \$2,528,805 in Current Unrestricted Funds accounts payable and accrued liabilities include \$213,719 for a contractual obligation to be paid in four annual installments with the final installment due in 2002. Maturities for each of the four years succeeding June 30, 1998, are as follows:

<u>Year</u>	<u>Amount</u>
1999	58,399
2000	58,245
2001	58,245
2002	<u>38,830</u>
Total	<u>\$213,719</u>

Installment Purchase Obligations

The Institute has future obligations under installment purchase agreements with the final installment due in 2003. The book value of the assets capitalized under these installment purchase agreements is \$61,763, with interest at 5.67 percent. A summary of future obligations under these agreements as of June 30, 1998 follows:

Year Ending June 30	Principal	Interest	Total
1999	11,462	3,010	14,472
2000	12,212	2,260	14,472
2001	13,014	1,458	14,472
2002	12,110	606	12,716
2003	<u>2,545</u>	<u>81</u>	<u>2,626</u>
Total	<u>\$51,343</u>	<u>\$7,415</u>	<u>\$58,758</u>

Subsequent Event

On October 1, 1998, the Institute executed a loan agreement with the Virginia College Building Authority in the amount of \$2,430,000 to finance the installation of a computer network in the Institute's barracks. This loan represents the Institute's share of revenue bonds issued by the Authority under its pooled bond program. The loan is payable in annual installments, varying from \$205,000 to \$285,000, starting on September 1, 1999 with final payment on December 1, 2008 with interest at 3.8 percent payable semi-annually. The principal and interest will be paid by the VMI Foundation, Inc. on a year-to-year basis as a gift to the Institute. Should the gift be discontinued, repayment will be made by charging cadets a debt service fee.

8. CAPITAL LEASES PAYABLE

The Institute is the lessee of equipment under capital leases expiring in various years through 2003. The assets under capital leases are recorded as property, plant, and equipment at the lower of the net present value of the minimum lease payments during the lease term, or the fair market value of the asset.

The Institute receives allocations made by the Virginia College Building Authority from the Higher Education Equipment Trust Fund for the purpose of acquiring equipment under leasing agreements with the Authority. The Institute has an equity interest in the Equipment Trust Fund at June 30, which provides authorization to purchase equipment through September 30, 1998. Fixed assets acquired, the equity interest at June 30, and the associated liability, are recorded in the Net Investment in Plant Fund.

For all capital leases, the minimum lease payments together with the present value of the net minimum lease payments as of June 30, 1998, are as follows:

Year Ending June 30	Equipment Trust Fund	Other Leases	Total
1999	\$ 314,038	\$ 19,794	\$ 333,832
2000	282,793	18,696	301,489
2001	293,238	11,128	304,366
2002	221,208	-	221,208
2003	<u>82,063</u>	<u>-</u>	<u>82,063</u>
Total minimum lease payments	1,193,340	49,618	1,242,958
Less: Executory costs	-	14,156	14,156
Amount representing interest	<u>116,669</u>	<u>8,999</u>	<u>125,668</u>
Present value of net minimum lease payments	<u>\$ 1,076,671</u>	<u>\$ 26,463</u>	<u>\$ 1,103,134</u>

Interest rates on capitalized leases vary from 3.95 percent to 8.5 percent.

9. COMMITMENTS

Operating Leases

The Institute is committed under various operating leases for equipment. Operating leases do not give rise to property rights or lease obligations, and therefore the results of the lease agreements are not reflected in the Institute's fund groups. In general, the leases are for a three-year term and the Institute has renewal options. In most cases, the Institute expects these leases will be replaced by similar leases in the normal course of business. Rental expense was approximately \$122,784 and \$79,348 for the years ended June 30, 1998 and 1997, respectively.

Year Ending June 30	Amount
1999	99,827
2000	60,305
2001	<u>13,529</u>
Total	<u>\$ 173,661</u>

10. STATE APPROPRIATIONS - CURRENT UNRESTRICTED FUNDS

During the year ended June 30, 1998, the Institute received the following appropriations, including supplemental appropriations received in accordance with Section 1-101 of the Appropriation Act of 1997, Chapter 924, Acts of Assembly.

	Educational And General	Unique Military Activities
Appropriation	\$ 8,329,355	\$ 3,622,272
Adjustments:		
Classified and job class re-grades	269,638	-
Lag pay adjustment	(16,839)	-
Fringe benefit adjustment	73,451	-
DIT/Cellular telephone reversion	(1,980)	-
Personnel savings hiring freeze	(16,854)	-
Appropriation transfers:		
Virginia Tech	-	(906,300)
Mary Baldwin	-	(45,600)
Equipment Trust Fund Lease payment	(157,720)	-
Total adjustments	149,696	(951,900)
Adjusted appropriations	\$ 8,479,051	\$ 2,670,372

Adjusted appropriations for the year ended June 30, 1997, were \$8,102,956 and \$2,432,772 for Educational and General and Unique Military Activities, respectively.

11. RETAINAGE PAYABLE

The Institute held \$16,757 and \$38,385 at June 30, 1998 and 1997, respectively, as retainage on various contracts for work that had been performed. The retainage will be remitted to the various contractors upon satisfactory completion of the projects.

12. DEFICIT FUND BALANCES

The \$552,967 deficit in current unrestricted funds and the \$6,945 deficit in plant funds retirement of indebtedness are the result of the accrual of compensated absences and other payables.

13. PENSION PLAN AND OTHER POST RETIREMENT BENEFITS

Virginia Retirement System

Employees of the Institute are employees of the Commonwealth of Virginia. The employees participate in a defined benefit retirement plan administered by the Virginia Retirement System (VRS). The VRS also administers life insurance and health related plans for retired employees. Information related to these plans is available at the statewide level only in the Commonwealth's Comprehensive Annual Financial Report (CAFR). The Commonwealth of Virginia, not the Institute, has the overall responsibility for contributions to these plans.

Optional Retirement Plan

Full-time faculty, certain administrative staff who hold academic rank, and athletic coaches are eligible to participate in a defined contribution plan administered by four different providers rather than VRS. The four different providers are TIAA/CREF Insurance Companies, Fidelity Investments, T. Rowe Price, and VALIC. This plan is a fixed contribution plan where the retirement benefits are based upon the employer's (10.4 percent) contributions, plus interest and dividends for the years ended June 30, 1998 and 1997.

Individual contracts issued under the plan provide for full and immediate vesting of both the Institute's and the employees' contributions. Total pension costs under this plan were approximately \$369,712 and \$294,990 for the years ended June 30, 1998 and 1997, respectively. Contributions to the optional retirement plan were calculated using the base salary amount of \$3,554,924 and \$2,836,447 for the years ended June 30, 1998 and 1997, respectively.

14. SURETY BOND

The employees of the Institute are covered by a Faithful Performance Duty Bond administered by the Commonwealth of Virginia's Department of General Services, Division of Risk Management with liability limits of \$500,000 for each occurrence. Information relating to the Commonwealth's self-insurance plan is available at the statewide level in the Commonwealth's CAFR.

15. YEAR 2000 ISSUE

The year 2000 issue is the result of shortcomings in many electronic data processing systems and other electronic equipment that may adversely affect the Institute's operations as early as the 1999 fiscal year.

The Institute established a Year 2000 Task Force to identify potential problems within the areas of information systems, telecommunications, facilities and embedded technologies, the supply chain, and data exchange. This group is working in conjunction with the Commonwealth's legislatively authorized Century Date Change Initiative Office, (CDCI), to address the Year 2000 issue.

The Task Force identified two primary business activities for the Institute: instruction and student services. Using the model provided by the CDCI Office, the Institute identified four phases to address concerns:

- Awareness stage – Establishing a budget and project plan for dealing with the year 2000 issue.
- Assessment stage – Identifying the systems and components for which year 2000 compliance work is needed.
- Remediation stage – Making changes to systems and equipment
- Validation/Testing stage – Validating and testing the changes made during the remediation stage.

As of March 1999, the awareness and assessment phases were 100 percent complete for both business activities. The remediation phase was 100 percent complete for instruction and 80 percent complete for student services. Testing/validation was 99 percent complete for instruction and 93 percent complete for student services.

In August 1997, the Institute entered into a contract to purchase and install an integrated client server system to replace existing administrative systems. The Institute estimates the cost for all of its Year 2000 readiness projects to be approximately \$1,309,500. To date, the Institute has either already spent or committed \$664,000 to acquire the new administrative systems, replace non-compliant desktop computers, test and validate other electronic data processing systems and components, and repairing or replacing other less critical systems.

Because of the unprecedented nature of the year 2000 issue, its effects and the success of related remediation efforts may not be fully determinable until the year 2000 and thereafter. Management cannot assure that the Institute is or will be year 2000 ready, that the Institute's remediation efforts will be successful in whole or in part, or that parties with whom the Institute does business will be year 2000 ready. However, the Institute's Year 2000 Task Force has drafted a Contingency Plan to provide an alternative approach to achieve our goals in the event of widespread outages and failures and to assure continuity of the services we provide.

The State Comptroller maintains the Commonwealth's Accounting and Reporting System, which the Authority uses for its financial accounting system. Information relating to the Year 2000 readiness for the Commonwealth's systems is available at the statewide level in the Commonwealth of Virginia's Comprehensive Annual Financial Report.

16. LITIGATION

In January 1990, the United States Department of Justice filed suit against the Commonwealth of Virginia, the Institute and others in the United States District Court for the Western District of Virginia to challenge the Institute's then existing males only admission policy. On June 26, 1996, the United States Supreme Court held that the Institute's policy violates the "equal protection clause" of the United States Constitution, Fourteenth Amendment. The suit was subsequently remanded to the District Court, where it remains open in its "remediation" phase. Additional appropriations to the Institute by the General Assembly in the sum of \$5.1 million have been applied to meet the obligation to assimilate qualified women at the Institute. While the additional appropriated sums filled the then immediate remediation needs, there remains the possibility of need for further additional sums specifically to meet the remedial obligation.

SUPPLEMENTARY INFORMATION

VIRGINIA MILITARY INSTITUTE
SCHEDULE OF AUXILIARY ENTERPRISES REVENUES AND EXPENDITURES
For the Year Ended June 30, 1998

	Food Services	Residential Facilities	Laundry	Student Health	Stores and Shops	Student Union	Cameron Hall	Athletics	Other (1)	Total
Revenues:										
Unrestricted:										
Student fees	\$ 3,393,861	\$ 1,327,772	\$ 233,212	\$ 154,011	\$ 97,592	\$ 698,651	\$ 197,257	\$ 1,287,708	\$ 9,110	\$ 7,399,174
Sales and services	43,948	236,582	5,761	(501)	67,536	2,845	322	413,853	-	770,346
Interest	-	-	-	-	-	-	-	13,772	44,961	58,733
Private gifts	-	-	-	-	-	2,300	20,000	44,274	-	66,574
Income from securities lending transaction:	-	-	-	-	-	-	-	-	3,988	3,988
Total unrestricted revenues	3,437,809	1,564,354	238,973	153,510	165,128	703,796	217,579	1,759,607	58,059	8,298,815
Restricted:										
Federal funds - College workstudy	-	-	-	-	-	23,608	-	-	-	23,608
Total gross revenue	3,437,809	1,564,354	238,973	153,510	165,128	727,404	217,579	1,759,607	58,059	8,322,423
Less: Cost of sales	-	-	-	-	80,855	-	-	-	-	80,855
Net revenues	3,437,809	1,564,354	238,973	153,510	84,273	727,404	217,579	1,759,607	58,059	8,241,568
Expenses of operation:										
Personal services	408	232,143	123,062	107,613	52,712	415,134	60,828	1,777,631	-	2,769,531
Supplies and materials	16,720	101,121	23,277	6,545	5,807	35,628	25,389	152,478	13	366,978
Equipment	41,730	74,272	1,041	2,193	7,626	28,498	25,000	102,337	7,246	289,943
Contractual services	2,748,983	525,237	746	2,711	87,564	136,351	25,232	838,414	1,560	4,366,798
Continuous charges	448,143	789,222	17,743	9,984	28,953	223,700	102,084	288,723	-	1,908,552
Expenses for securities lending transaction:	-	-	-	-	-	-	-	-	3,901	3,901
Miscellaneous	768	-	-	-	-	150	-	-	-	918
Total expenses of operation	3,256,752	1,721,995	165,869	129,046	182,662	839,461	238,533	3,159,583	12,720	9,706,621
Excess (deficiency) of revenues over (under) expenses of operation before transfers	181,057	(157,641)	73,104	24,464	(98,389)	(112,057)	(20,954)	(1,399,976)	45,339	(1,465,053)
Transfers:										
Nonmandatory transfers	-	-	-	5,483	(148,665)	7,135	865	1,184,679	(94,437)	955,060
Net increase (decrease) for the year	\$ 181,057	\$ (157,641)	\$ 73,104	\$ 29,947	\$ (247,054)	\$ (104,922)	\$ (20,089)	\$ (215,297)	\$ (49,098)	(509,993)
Fund balance (deficit) at beginning of year										(60,417)
Fund balance (deficit) at end of year (2)										<u>\$ (570,410)</u>

(1) Other column represents amounts not specifically identifiable to a particular auxiliary.

(2) The \$570,410 deficit in auxiliary enterprises fund balance is the result of the accrual of compensated absences and accounts payable.

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